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Haskins & Sells at 80 Years

The Firm will mark its 80th anniversary in March. In commemoration of this milestone, we have asked managing partner Michael N. Chetkovich to comment on where the Firm stands at 80 and where we are going as we move toward our centennial year.

As a starter, what does it mean for a firm, or for any organization for that matter, to be 80 years old, or 100 or 50? What is the significance of this?

MNC: A good question and one I've thought about a bit. Certainly it's a time for a measure of humility, a proper occasion to recognize our great obligation to all those who built the Firm and brought it to where it is today. They have given us a sturdy vehicle to work with and move forward.

However, one can overdo the celebration of history. We can't afford much time for looking back; there is too much to do today. And it's what we do today that counts. Great as tradition can be, and ours is, it should not get in the way of progress.

With that in mind, what major developments do you see the profession and the Firm approaching in the years immediately ahead?

MNC: The profession is in a period of considerable change and ferment and there are significant issues to be resolved which are critical to our future direction. For example, there is the broad question of the extent to which our professional societies, specifically the American Institute of CPAs, should and will act for the profession, versus the individual firms, particularly the larger ones, going their own way. We in H&S always have held to the premise that a strong professional society was essential to a strong profession. So we have felt that the best approach to broad professional questions and issues was through the Institute. There have been indications that some of our contemporaries do not feel as strongly about this philosophy as we do.

Regardless of one's philosophy, this is something that we must resolve if we are to move forward. Should we, for example, develop auditing standards through the profession or should each firm do it on its own? And there are ethical questions, for example: how should we distinguish between advertising and self-promotion versus properly informing the public? There is no one answer, nor a simple answer, to questions such as these. Certainly there is room for and there should be a considerable area for variation in how the individual firms operate—room for innovation and individuality. On the other hand, I would think and hope that on the broad issues that affect the whole profession we ought to try to work out the answers together, and by that I mean work them out in a way that's good for the public and for the profession, as well as for the individual firms.

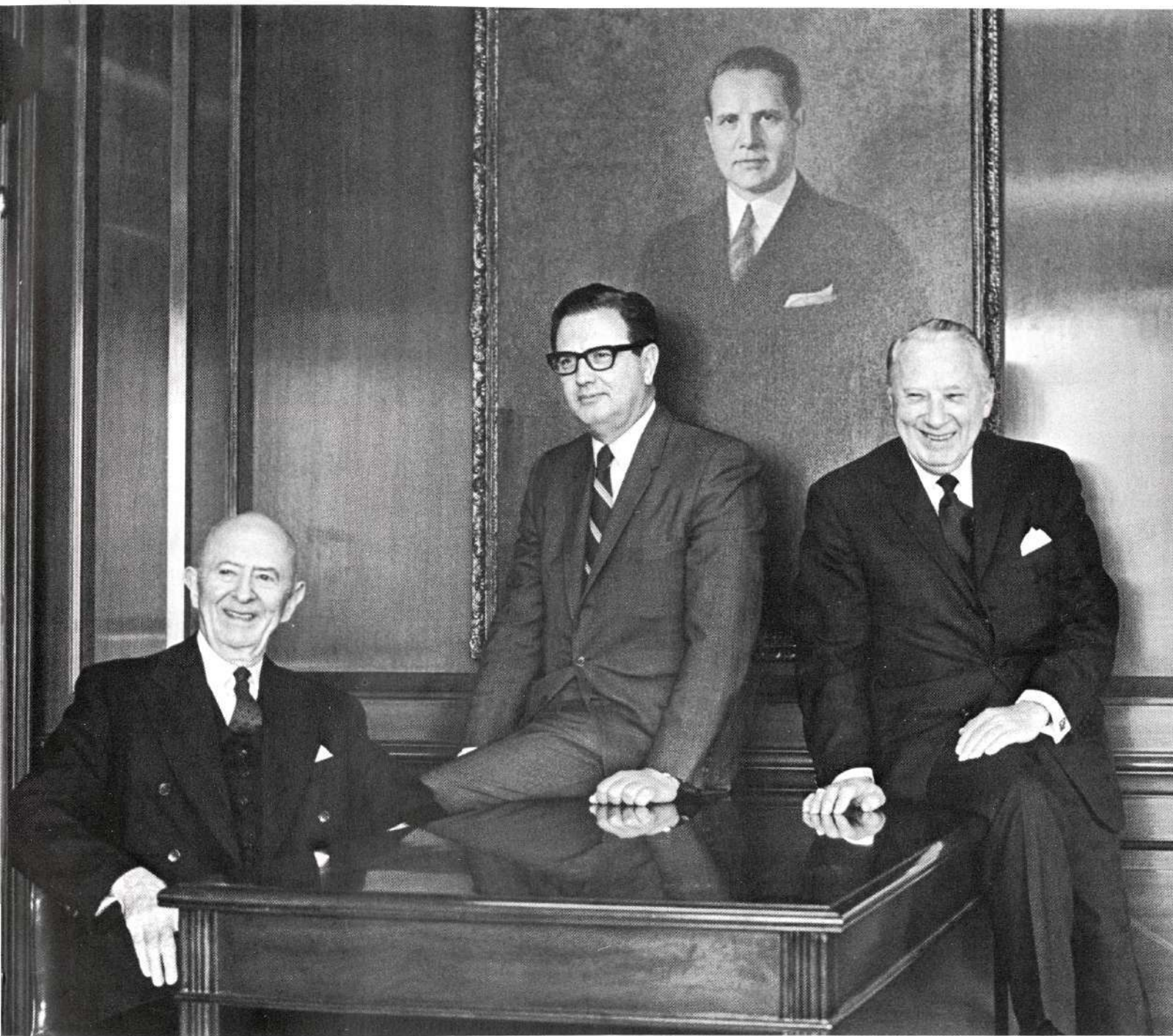
But to go back more specifically to your question of significant developments affecting the profession and the Firm. Of course, we have to be concerned about the litigious environment we are in today, and we have to be concerned over the attitude and activity of the Securities and Exchange Commission as it affects the profession. I am confident that some of the harsher aspects will be mitigated as time goes on. Although the complaints and criticism still seem to be mounting in volume, there has to be a leveling off and a more realistic perspective taken of the audit function and what can be expected of it.

You mean by the SEC and the public?

MNC: Yes. The SEC, the public, the courts and the profession itself. And in this connection, I think the AICPA's appointment of a special commission to study this whole question of audit responsibility—the commission that Ken Stringer of our Firm is a member of—is a step in the right direction. I don't know that any really concentrated study ever has been given to this most important subject. The courts, of course, have looked at it to some extent. It has been looked at in pieces or from certain points of view, but we've never really put the function under close scrutiny and asked, "What can and should be expected of an audit? How much reliance can or should be put on it?"

We can't expect this group to give us complete and totally definitive answers, but certainly this could be a long step in the right direction. Auditing and accounting are rather imperfect arts practiced in what we certainly know to be an imperfect society. There is a tendency to expect a much greater degree of precision from accounting and from auditing than is inherent in the nature of these functions. None of this is to say that we, as professionals, shouldn't take a critical look at ourselves and sharpen our own perspectives and our own tools on a continuing basis. This kind of self-analysis and self-improvement is essential to progress. We know that institutions and professions, like individuals, all have to be prodded to some extent or they can become complacent and unresponsive to changing needs. We have to recognize that we have a significant responsibility to a broad public and that a great deal is expected of us.

The other side, as I mentioned, is that there should not be an unreasonable level of expectation. Expectation should be consistent with the realities of the situation. This, as I see it, is the real problem of credibility; it's the gap between expectation and performance. What we must consider is whether the gap is a factor of unreasonable expectations or of substandard performance or of some combination of the two. What is the proper level of performance? And similarly, what is a reasonable level of expectation? This kind of gap is going to be with us for a long time, just as it is with other professions, such as medicine and law, and that's another thing we have to recognize.



Three managing partners: Arthur B. Foye, Michael N. Chetkovich and John W. Queenan.

We tend to feel abused because of criticism, or we are unduly sensitive to it. We haven't been used to this kind of attention. Although I must say that the criticism takes some rather harsh forms at times and is not always discerning and fair, we have to recognize that this is the way life is. There is no significant institution or profession or organization that I know of that doesn't have a credibility problem today—that isn't subject to some criticism. I think it's in the nature of things. You can be pretty sure you're not going to look in the newspaper and see good things said about you. It may happen, but it would be a rare occasion. Good news, as we know, really isn't news.

Are we considering new areas of service that we are not into fully?

MNC: Yes, we do this on a continuing basis, but it's more a matter of extensions of service than of dramatic moves. It's not like going from radio to television or anything like that. I would guess that if you look at the accounting firms twenty years from now, the mix of their services will not be radically different from today; the attest function still will be the major part of the services rendered. This is not to say that there won't be significant growth in tax, MAS and small business services. It's just that there is so much room and need for expansion of the attest function.

There are a number of developments taking place that we are watching closely, such as the pros and cons of extending the attest function in one way or another to such areas as interim financial statements, forecasts, to human resource accounting and things like that. At the same time that we are doing our own research in such areas, making our own analyses and developing our own techniques, we are also working in concert with the profession through the AICPA.

Do you see more legislation of the Securities Acts or Pension Reform Act type, requiring additional services by certified public accountants, coming in the years ahead?

MNC: Developments of this nature have been going on for years and really put a solid floor under the profession... give it a firm base. The things we do, to a considerable extent, are required by law. The Securities Act and the Securities and Exchange Act of the 1930s were tremendous boosts to the profession. There still are a number of large organizations that are not required to have audits by independent accountants. More and more, however, audits are being required, by legislation or by regulatory authority; and even where audits are not legally required, there is a growing tendency to consider them as essential for other reasons. So I think there is lots of room

for expansion of our traditional functions, with or without legislation.

What would you say if we had a severe recession? What are the chances of our continued growth, or the Firm's continuing on an even keel?

MNC: If there were a severe recession leading to a depression that continued for some time, it would be unreasonable to expect that any business organization, with very few exceptions, could hope to continue to grow. Functions such as ours are closely tied to the general state of the economy. As business grows, we grow. If business were to contract, the scope of our activities would contract, somewhat at least. But we don't tend to move directly with the business cycle. To some extent, we lag behind the cycle; in a period of boom our activity doesn't necessarily pick up as rapidly, but neither do we fall off as rapidly on the down side. And to the extent that our services are mandated, either through law or for other reasons, we are, to some extent, sheltered from the harsher recession effects.

None of this is to say that we don't feel the effects of periods of depressed activity. We certainly do, but to a somewhat lesser extent than most business entities. I should add here that while I believe we are in a period of recession now, I don't expect any extended period of economic depression.

How about the challenges that young people are offered in public accounting today? Do you think they are as great or greater than when you started?

MNC: Oh, without doubt, far greater, and so are the opportunities. The whole arena in which we perform and the functions we serve have become so much more sophisticated. There's so much more interest in our functions, so much more importance attached to them. It's a much more demanding and rigorous profession.

Fortunately, we are getting excellent talent. The young people coming into the Firm from college today are, in my opinion, much better prepared than my class was and, from that point on, the training and work experience within the Firm are immeasurably better. There's just no comparison. On audits we don't do nearly as much of what we used to call "detail work." With such techniques as statistical sampling and regression analysis, the young staff accountant on an engagement is much more involved in more sophisticated aspects of the audit, from the beginning, than was true in my time. And there are so many more opportunities for specialization and for

identifying and pursuing areas of special interest.

I take it you consider recruiting to be important?

MNC: That's putting it mildly. There is nothing more important to the future of the Firm than getting the best people and then fitting them into the right slots. And it *all* begins with the recruitment effort, so that it is probably as important a function as there is. If we don't get our share of the better prospects from the college campuses, everything else we do in terms of our standing with respect to our contemporaries—our place in the profession—is an uphill battle. But if we get the best material, we have a running start. Then, if we only do as well as our contemporaries in terms of training, promotion, and so forth, we still will be ahead of them because we got better people to start with.

Where are we going between now and our 100th anniversary? Where do you see us going?

MNC: With the kind of change we've experienced in the last decade, it's not wise to prognosticate. We have plans and projections, of course, but I would not be enthusiastic about going on record that far ahead. However, let me generalize a little bit. I think the profession is going to emerge from this present period of challenge stronger than it has ever been. And I think its role will be better defined. It will be in a better position to move ahead on more solid ground.

As I said earlier, the young people coming into the profession are of ever-increasing quality, and this has to stand the profession in good stead in the long run. And everything we do within the Firm is geared to moving in the vanguard of the profession; making every effort to get the best people we can, to give them the best training, to provide the best environment for their development.

The thing that impresses me the most is the great enthusiasm in the Firm. I confess to some bias, of course, and perhaps I tend to see things the way I want to see them. But I have never known our organization as a whole to be so enthusiastic as to its place and its prospects. This bodes well for where we will be twenty years from now.

At that time, I think you will find that the population of the Firm will be younger. Not radically, but younger nonetheless. It is likely that the retirement age will have been lowered. Undoubtedly the number of partners will be considerably greater; also, we will be doing certain things that, perhaps understandably, we are a little reluctant to do today. I mean new functions. And our techniques will be much more sophisticated, much more computer oriented.

I would hope we would not ever get to the point where we would be anything like a department-store-type organization, offering an endless range of services. A professional organization has to declare itself. It can't be everything. There are great temptations to extend the range of services because we have a clientele that needs them and wants them and because we have a considerable range of capabilities. On the other hand, we have to recognize that the more we extend the range of services, the less top level management attention we can give to each function. That's not to say we can't have very good specialists performing in each of a wide range of functions and perhaps performing very well. But the greater your mix, the greater is the risk that you may not be performing in each area as well as you should be. There has to be discipline within an organization.

Basically, as I see it, accounting firms should take on and do those things that the public really needs of them, that they can do better than, or at least as well as, others, and that are not in conflict with one another or with the primary role of the organization.

What do you think are the most significant changes in the profession you have observed since you started back in 1940?

MNC: Certainly one significant and very obvious change is that the profession is much more in the limelight than it was at that time. It is receiving far more attention from the press, regulatory agencies, the courts and the public. This is not all good nor all bad. It has aspects of both. I'm sure the intensity of this attention has caused the profession to give more thought and consideration to the nature and scope of its responsibilities than it otherwise might have. For example, in the past 10 or 15 years we have devoted a great deal of effort to developing and defining "generally accepted accounting principles," even though our accomplishments may have fallen short of expectations.

I believe very strongly that the profession today is a far better place for a young man or woman to make a career than it was when I began—much better training, more challenging assignments, greater recognition and a brighter future. So in general, the opportunities for a successful and personally fulfilling career are much better today than they were in 1940. I must add, though, that I can have no complaints as to my own experience, for it has been immensely interesting and rewarding, due in such large measure to the truly fine people I have worked for and with throughout this period. □